

Q3 REVIEW: THE SUPPLY CHAIN IN THE SPOTLIGHT

HEDGE FUNDS (Inception)	SEPTEMBER 2021	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund** (March 2006)	-0.6%	5.5%	12.4%
Venator Select Fund (September 2013)	-1.1%	11.4%	17.1%
S&P/TSX Total Return (March 2006)	-2.2%	17.5%	6.6%
Russell 2000 (March 2006)	-2.9%	12.4%	8.8%
S&P Toronto Small Cap (March 2006)	-0.1%	16.7%	3.4%
S&P 500 (March 2006)	-4.7%	15.9%	10.3%

ALTERNATIVE MUTUAL FUNDS (Inception)	SEP 2021	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund*** (January 2020)	0.0%	8.2%	19.0%	6.9%	6.6%	8.7%
B of A Merrill Lynch High Yield Index (August 2008)	0.0%	4.7%	11.5%	6.6%	6.4%	7.3%

*As of September 30, 2021

**Venator Founders Alternative Fund, which holds the same securities as Venator Founders Fund, is now available as a Liquid Alternative Mutual Fund; it is eligible to be held in both registered & non-registered accounts.

***Performance data prior to January 24, 2020 relates to Class F Units of Venator Income Fund, which was distributed to investors on a prospectus-exempt basis in accordance with National Instrument 45-106

North American markets stalled in Q3 as easy year-over-year comparable second quarter reports gave way to tougher guides going forward. Exacerbating matters, valuations are nearing all-time highs at a time when there are fears that interest rates are showing more potential to increase vs decrease going forward. The market doesn't seem to be anticipating an inevitable return to normalcy, but that doesn't mean there aren't a lot of opportunities in a wildly divergent market; it just means that security selection and "special situations" will likely be key to better performance going forward.

The Global Supply Chain has gone from relative obscurity to front-and-center on investors' minds this year. Manufacturing shortages, employee shortages and transportation cost inflation have been dominant themes over the last few months. Homebuilders are lowering forecasts because they can't find enough materials coming from overseas or trades to complete projects, while buyers are shunning low supply induced higher prices we have seen over the last year. Furniture and clothing manufactures are having difficulties getting enough product manufactured in China and Vietnam amid renewed lockdowns. Every importer is talking about containership rates being up 100%+ year over year while trucking companies are maintaining forecasts for elevated rates through mid-2022. Even the recent run-up in the energy complex is more related to supply constraints than to demand factors (demand is obviously up year over year as it is with everything, but just-in-time supply ramps have failed to get back to historical levels, although rig counts are moving higher). There will be some surprise beneficiaries of the supply chain choke-off, notably those that came into the back half of the year over-inventoried and who will likely offer less discounting than usual into the holidays.

Of course, the flip side of the supply equation is demand; is the demand really there? Most companies as varied as car dealerships, homebuilders, shoe manufacturers and furniture companies, to name a few industries, say it is. The truth is harder to determine. If you can only supply 80% of your old capacity, and backlogs on orders or projects that started last year are keeping you busy, it probably looks like demand is strong even though it is tough to tell. A person's decision to build a house twelve months ago is still creating demand for appliances, furniture, and plumbing long after that person's demand for a new house has been satisfied. Our personal belief is that supply chain related long backlogs are potentially hiding the deteriorating demand that is showing up in economic data.

VENATOR ALTERNATIVE INCOME FUND REVIEW

The Income Strategy has had a good year so far, outperforming its underlying yield in a tight yield environment. It has benefited from its exposure to the convertible bond market, as well as a refinancing cycle that had seen several investments “called” away from us before maturity. Most of our bonds are now invested in the convertible space, and half of these companies have net cash on their balance sheet. We will continue to favor this type of instrument until we find better opportunities in traditional bonds, which currently don’t carry enough return yield in today’s market environment to compensate for the risk. Currently, the fund is carrying an underlying yield of just over 5% with maturities largely huddled in the 2025-2026 timeframe.

Q3 2021 INCOME STRATEGY ATTRIBUTION (bps)			
TOP CONTRIBUTORS		LARGEST DETRACTORS	
Kaleyra 2026	14	Smile Direct Club 2026	(45)
Chemtrade 2025	12	Telesat Canada 2027	(27)
AirBnB 2026	12	Wayfair 2025	(19)
Canaccord Preferred	12	Peloton 2026	(18)
Snap 2027	12	Lendingtree 2025	(16)

VENATOR FOUNDERS FUND REVIEW

Our Founders Fund was unable to recover from its July swoon and sits approximately 5% below its all-time high watermark. We were very pleased with the Q2 financial results of nearly all our investments in both absolute terms as well relative to expectations. With few exceptions in consumer products, we are positioned away from companies with supply chain issues. We continue to favor longer term unappreciated secular trends and have bought several new positions to that effect such as ZipRecruiter which should benefit from an influx of people returning to work, a shift online for recruiting, a recent trend of people looking to switch careers, and a recent factor of companies finding themselves short-staffed in a rebuilding economy. We believe that our investments will be near term beneficiaries of the supply chain issues noted above as they are benefiting from strong inventory positions near term and improving secular trends long term, all at what we view to be undemanding valuations and substantial upside.

Q3 2021 FOUNDERS FUND ATTRIBUTION (bps)			
TOP CONTRIBUTORS		LARGEST DETRACTORS	
OptimizeRx	208	Skechers USA	(72)
Atkore International	72	Wayfair	(62)
Voxtur Analytics	42	MDF Commerce	(60)
Willscot Mobile Mini	41	Caeserstone	(57)
Red Violet	34	Copper Mountain	(50)

We reserve the right to change our mind!



Brandon Osten, CFA
 CEO, Venator Capital Management Ltd.

This commentary is intended for informational purposes only and should not be construed as a solicitation for investment in any of the Venator Funds. The Venator Hedge Funds may only be purchased by accredited investors with a medium-to-high risk tolerance seeking long-term capital gains. Please read the Offering Memorandum for each Hedge Fund in full before making any investment decisions. Prospective investors should inform themselves as to the legal requirements for the purchase of securities. All stated Venator Hedge Fund returns are net of fees. It is important to note that past performance should not be taken as an indicator of future performance. Commissions, trailing commissions, management fees and other expenses all may be associated with investing in any of the Venator Alternative Mutual Funds. Please read the prospectus and Fund Facts relating to each Alternative Mutual Fund before investing. The indicated rates of return of the Venator Alternative Mutual Funds are the historical annual compounded total returns, including changes in share or unit value and the reinvestment of all dividends or distributions, and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.